

India

REDUCE (no change)

Consensus ratings*: Buy 8 Hold 2 Sell 7
 Current price: Rs434
 Target price: Rs307
 Previous target: Rs307
 Up/downside: -29.3%
 InCred Research / Consensus: -22.0%

Reuters:
 Bloomberg: LAURUS IN
 Market cap: US\$3,221m
 Rs233,914m
 Average daily turnover: US\$13.5m
 Rs981.1m
 Current shares o/s: 538.7m
 Free float: 72.8%

*Source: Bloomberg

Key changes in this note

- FY25F/26F EPS cut by 33% / 16%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.5	1.9	25.1
Relative (%)	(0.2)	(6.2)	4.2

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

Research Analyst(s)



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Laurus Labs

The wait keeps getting longer

- Another disappointing quarter with revenue/EBITDA miss of 10%/20% vs. estimates. Margins fell to 14.3% (-250bp QoQ) against the estimated +16.5%.
- 2Q likely to be muted as well, with some recovery expected in 2HFY25F. Meaningful pick-up to reflect only from FY26F as key CDMO projects pick up.
- Our FY25F/26F EPS cut by 33%/16%, respectively. Retain REDUCE rating with a TP of Rs307. Faster-than-expected revenue growth is a downside risk.

Yet another dismal performance

Laurus Labs missed expectations in 1QFY25 due to another quarter of margin miss because of lower asset utilization and negative operating leverage. The EBITDA margin at 14.3% fell well below our/Bloomberg consensus estimates, primarily due to revenue miss (+1% YoY, -9% vs. our expectation). Positively, gross margin recovered sharply from 4QFY24 low (+530bp QoQ), led by better pricing in antiretroviral APIs, process improvement and a better product mix (higher oncology sales). Barring oncology API, which grew 122% YoY on a low base, most other businesses posted flat-to-declining growth. The CDMO business declined by 14% YoY/ 9% QoQ due to prioritized resourcing for complex projects in an early phase.

Meaningful revenue pick-up in CDMO business will only be in FY26F

Laurus Labs' management reiterated pick-up in the CDMO business from 2HFY25F. Initial supplies for the animal health project should start seeing some traction from 2HFY25F due to complex chemistries and API manufacturing block qualifications, while peak revenue is anticipated by FY27F. The crop protection unit should qualify by FY25F-end and contribute from FY26F, and alongside vectors/gene products are also expected to contribute from FY26F.

Investments still continue

Laurus Labs, along with its JV partner KRKA, will invest EUR50m over the next three years in a new FDF facility in Hyderabad. Another Rs2bn fermentation-focused capex is planned at Vizag (to be ready by mid-2026F). Laurus Labs is increasing its formulations capacity from 10bn tablets to 13bn tablets over the next 18 months for CDMO needs of a customer (funded by the customer). The company has invested around Rs26bn over FY22-24 and will invest another Rs18-20bn in FY25F/26F. Further, Laurus Labs has invested around Rs4.7bn across technologies (gene therapy/cell therapy/precision fermentation, etc.) – these initiatives are yet to contribute meaningfully and will remain a drag in the near term.

Retain REDUCE rating

While we acknowledge that Laurus Labs has multiple business optionality, given the recent expansion of its FDF/API as well as CDMO capacities and its investments in new-age therapies like CAR-T and gene therapy, we feel the benefits may be back-ended and earnings are likely to languish in the interim. We retain our REDUCE rating on the stock with a target price of Rs307. Upside risk: Faster-than-expected revenue growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	49,356	60,406	50,408	54,465	62,521
Operating EBITDA (Rsm)	14,224	15,922	7,775	9,627	13,484
Net Profit (Rsm)	8,275	7,901	1,623	2,555	5,279
Core EPS (Rs)	15.4	14.7	3.0	4.7	9.8
Core EPS Growth	(15.9%)	(4.5%)	(79.5%)	57.5%	106.6%
FD Core P/E (x)	28.24	29.58	144.03	91.46	44.27
DPS (Rs)	1.6	4.0	2.0	2.0	2.0
Dividend Yield	0.37%	0.92%	0.46%	0.46%	0.46%
EV/EBITDA (x)	17.58	15.86	32.95	26.58	19.07
P/FCFE (x)	25.46	23.90	35.66	16.17	21.68
Net Gearing	49.3%	47.5%	57.5%	55.1%	53.8%
P/BV (x)	6.97	5.79	5.69	5.46	4.93
ROE	27.8%	21.4%	4.0%	6.1%	11.7%
% Change In Core EPS Estimates				(33.09%)	(15.64%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,759	15,448	13,809	11,818	12,245	11,949	14,397	11,949	1%	-17%
Consumption of raw materials	7,074	7,194	6,946	5,839	5,811	5,454	7,220	5,369	-8%	-26%
<i>as % of sales</i>	<i>44.9%</i>	<i>46.6%</i>	<i>50.3%</i>	<i>49.4%</i>	<i>47.5%</i>	<i>45.6%</i>	<i>50.2%</i>	<i>44.9%</i>		
Employee costs	1,470	1,474	1,343	1,599	1,639	1,550	1,611	1,740	9%	8%
<i>as % of sales</i>	<i>9.3%</i>	<i>9.5%</i>	<i>9.7%</i>	<i>13.5%</i>	<i>13.4%</i>	<i>13.0%</i>	<i>11.2%</i>	<i>14.6%</i>		
R&D costs	490	550	580	470	580	670	690	640	36%	-7%
<i>as % of sales</i>	<i>3.1%</i>	<i>3.6%</i>	<i>4.2%</i>	<i>4.0%</i>	<i>4.7%</i>	<i>5.6%</i>	<i>4.8%</i>	<i>5.4%</i>		
Other expenditure	2,236	2,195	2,085	2,242	2,336	2,461	2,461	2,489	11%	1%
<i>as % of sales</i>	<i>14.2%</i>	<i>14.2%</i>	<i>15.1%</i>	<i>19.0%</i>	<i>19.1%</i>	<i>20.6%</i>	<i>17.1%</i>	<i>20.8%</i>		
EBITDA	4,489	4,036	2,855	1,667	1,879	1,814	2,415	1,712	3%	-29%
<i>Margins (%)</i>	<i>28.5%</i>	<i>26.1%</i>	<i>20.7%</i>	<i>14.1%</i>	<i>15.3%</i>	<i>15.2%</i>	<i>16.8%</i>	<i>14.3%</i>		
Depreciation	818	844	870	906	934	984	1,023	1,061		
Other income	11	14	17	36	18	24	185	25		
Interest	401	427	531	392	424	508	505	492		
PBT	3,281	2,779	1,471	406	539	346	1,073	185	-55%	-83%
Total tax	943	748	399	122	146	95	320	63		
<i>Tax rate (%)</i>	<i>28.7%</i>	<i>26.9%</i>	<i>27.1%</i>	<i>30.0%</i>	<i>27.0%</i>	<i>27.3%</i>	<i>29.8%</i>	<i>33.9%</i>		
PAT before MI	2,338	2,031	1,072	284	393	252	753	122	-57%	-84%
Minority interest (MI)	-10	0	-43	-36	-24	-18	-3	5		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	233	750	127	-49%	-83%
Extraordinary expenses	0	0	0	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	233	750	127	-49%	-83%
No. of shares	537.4	538.7	538.7	538.7	538.7	540.0	540.0	538.7		
EPS	4.3	3.8	1.9	0.5	0.7	0.4	1.4	0.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin break-up

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)										
Gross	55%	53%	50%	51%	53%	54%	50%	55%	448	522
EBITDA	28%	26%	21%	14%	15%	15%	17%	14%	22	-245
Adj.PAT	15%	13%	7%	2%	3%	2%	5%	1%	-104	-415
Effective tax rate	29%	27%	27%	30%	27%	27%	30%	34%	384	407

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Antiviral API	4,017	3,729	3,499	4,060	3,711	3,501	4,098	3,984	-2%	-3%
<i>% total revenue</i>	<i>25.5%</i>	<i>24.1%</i>	<i>25.3%</i>	<i>34.4%</i>	<i>30.3%</i>	<i>29.3%</i>	<i>28.5%</i>	<i>33.3%</i>		
Oncology API	545	758	1,285	537	1,195	861	1,490	1,195	122%	-20%
<i>% total revenue</i>	<i>3.5%</i>	<i>4.9%</i>	<i>9.3%</i>	<i>4.5%</i>	<i>9.8%</i>	<i>7.2%</i>	<i>10.3%</i>	<i>10.0%</i>		
Other API	2,238	1,833	2,356	1,373	1,384	1,378	1,863	1,461	6%	-22%
<i>% total revenue</i>	<i>14.2%</i>	<i>11.9%</i>	<i>17.1%</i>	<i>11.6%</i>	<i>11.3%</i>	<i>11.5%</i>	<i>12.9%</i>	<i>12.2%</i>		
FDF	1,490	2,490	3,930	2,850	3,320	3,670	4,300	2,740	-4%	-36%
<i>% total revenue</i>	<i>9.5%</i>	<i>16.1%</i>	<i>28.5%</i>	<i>24.1%</i>	<i>27.1%</i>	<i>30.7%</i>	<i>29.9%</i>	<i>22.9%</i>		
Synthesis	7,200	6,420	2,280	2,500	2,240	2,120	2,360	2,140	-14%	-9%
<i>% total revenue</i>	<i>45.7%</i>	<i>41.6%</i>	<i>16.5%</i>	<i>21.2%</i>	<i>18.3%</i>	<i>17.7%</i>	<i>16.4%</i>	<i>17.9%</i>		
Bio-Ingredients / other	270	220	460	500	390	420	290	430	-14%	48%
<i>% total revenue</i>	<i>1.7%</i>	<i>1.4%</i>	<i>3.3%</i>	<i>4.2%</i>	<i>3.2%</i>	<i>3.5%</i>	<i>2.0%</i>	<i>3.6%</i>		
Total Revenue	15,759	15,448	13,809	11,818	12,245	11,950	14,400	11,949	1%	-17%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	11,949	13,082	-8.7	13,608	-12.2
EBITDA (Rsm)	1,712	2,184	-21.6	2,262	-24.3
Margin (%)	14.3	16.7		16.6	
PAT (Rsm)	127	533	-76.2	596	-78.7

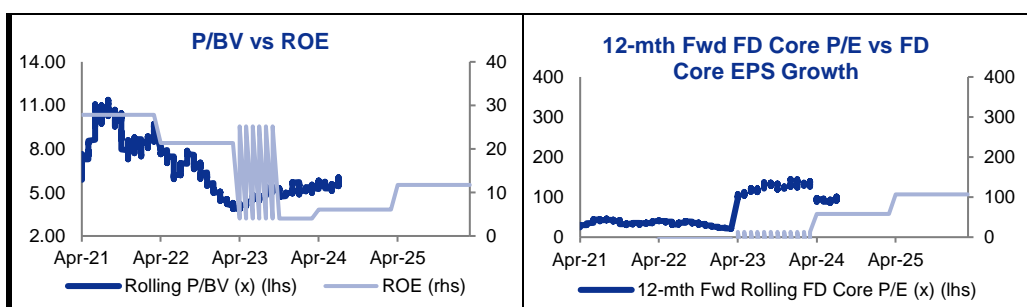
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	% change	Old	New	% change
Revenue	57,189	54,465	(4.8)	64,461	62,521	(3.0)
EBITDA	11,084	9,627	(13.1)	14,551	13,484	(7.3)
Margin	19.4	17.7		22.6	21.6	
PAT	3,819	2,555	(33.1)	6,258	5,279	(15.6)
EPS	7.0	4.7		11.5	9.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	49,356	60,406	50,408	54,465	62,521
Gross Profit	27,418	32,662	26,084	29,139	34,387
Operating EBITDA	14,224	15,922	7,775	9,627	13,484
Depreciation And Amortisation	(2,515)	(3,241)	(3,846)	(4,400)	(4,800)
Operating EBIT	11,709	12,681	3,929	5,227	8,684
Financial Income/(Expense)	(1,024)	(1,652)	(1,829)	(2,100)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	153	60	263	100	100
Profit Before Tax (pre-EI)	10,839	11,089	2,364	3,227	6,684
Exceptional Items					
Pre-tax Profit	10,839	11,089	2,364	3,227	6,684
Taxation	(2,515)	(3,123)	(682)	(871)	(1,805)
Exceptional Income - post-tax					
Profit After Tax	8,324	7,966	1,682	2,355	4,879
Minority Interests	(49)	(65)	(59)	200	400
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,275	7,901	1,623	2,555	5,279
Recurring Net Profit	8,275	7,901	1,623	2,555	5,279
Fully Diluted Recurring Net Profit	8,275	7,901	1,623	2,555	5,279

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	14,224	15,922	7,775	9,627	13,484
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,416)	(3,153)	(290)	2,271	(2,689)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,697)	(2,830)	(828)	(671)	(1,405)
Net Interest (Paid)/Received	(1,024)	(1,652)	(1,829)	(2,100)	(2,100)
Tax Paid	(826)	(1,239)	738	1,329	595
Cashflow From Operations	9,111	9,939	6,657	11,226	9,390
Capex	(8,767)	(9,875)	(6,760)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(276)	(223)			
Other Investing Cashflow					
Cash Flow From Investing	68	(159)	(103)	3,226	1,390
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	43	74	26		
Shares Repurchased					
Dividends Paid	(859)	(1,404)	(862)	(1,080)	(1,083)
Preferred Dividends					
Other Financing Cashflow	1,022	1,207	1,871	(2,344)	(971)
Cash Flow From Financing	207	(122)	1,035	(3,424)	(2,053)
Total Cash Generated	274	(281)	932	(198)	(663)
Free Cashflow To Equity	9,179	9,780	6,554	14,453	10,781
Free Cashflow To Firm	10,203	11,432	8,383	16,553	12,881

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	766	485	1,417	1,219	556
Total Debtors	13,542	15,804	16,629	16,339	17,506
Inventories	17,603	16,848	18,454	19,063	20,007
Total Other Current Assets	1,536	1,480	1,850	1,906	2,188
Total Current Assets	33,446	34,617	38,350	38,527	40,257
Fixed Assets	32,086	37,002	40,475	44,075	47,275
Total Investments	308	499	1,240	1,240	1,240
Intangible Assets	2,571	2,592	2,653	2,653	2,653
Total Other Non-Current Assets	1,269	1,894	1,152	1,152	1,152
Total Non-current Assets	36,234	41,987	45,521	49,121	52,321
Short-term Debt	11,357	12,106	17,088	17,088	17,088
Current Portion of Long-Term Debt					
Total Creditors	8,764	7,107	10,512	10,647	9,753
Other Current Liabilities	6,690	5,111	3,522	6,033	6,632
Total Current Liabilities	26,810	24,323	31,123	33,769	33,473
Total Long-term Debt	5,963	7,614	7,982	7,638	8,667
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,316	4,181	3,610	3,610	3,610
Total Non-current Liabilities	9,280	11,795	11,592	11,247	12,277
Total Provisions					
Total Liabilities	36,090	36,117	42,715	45,016	45,749
Shareholders Equity	33,512	40,375	41,110	42,785	47,382
Minority Interests	79	111	46	(154)	(554)
Total Equity	33,591	40,487	41,156	42,631	46,828

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	2.5%	22.4%	(16.6%)	8.0%	14.8%
Operating EBITDA Growth	(8.3%)	11.9%	(51.2%)	23.8%	40.1%
Operating EBITDA Margin	28.8%	26.4%	15.4%	17.7%	21.6%
Net Cash Per Share (Rs)	(30.73)	(35.71)	(43.91)	(43.64)	(46.78)
BVPS (Rs)	62.21	74.95	76.31	79.42	87.96
Gross Interest Cover	11.44	7.68	2.15	2.49	4.14
Effective Tax Rate	23.2%	28.2%	28.8%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	98.37	88.66	117.42	110.47	98.79
Inventory Days	277.50	226.63	264.87	270.35	253.43
Accounts Payables Days	170.96	104.40	132.19	152.48	132.33
ROIC (%)	16.5%	15.0%	4.4%	5.7%	8.7%
ROCE (%)	26.0%	22.8%	6.2%	7.8%	12.4%
Return On Average Assets	14.3%	12.6%	3.8%	4.6%	7.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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